

Earned Income Tax Credit Due Diligence

**Know the Law
Ask the Right Questions
Get All the Facts**

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What is EITC Due Diligence

- EITC error rate is 23-28%
- 70% of EITC returns are prepared by paid preparers
- Congress enacted due diligence requirements in response to EITC error rate
- Requires paid preparers to take extra steps to ensure correct EITC claims



EITC Due Diligence

- Internal Revenue Code §6695(g)
- Requirements
 1. Completion of eligibility checklist
 2. Computation of the credit
 3. Records retention
 4. Knowledge requirement

90% of penalties assessed for failure to comply with this area



Common Errors

More than 60% of all EITC errors are from:

1. Claiming a child who does not meet the age, relationship or residency requirement
2. Filing as single or head of household when married
3. Under or over-reporting income



Best Practices for Applying EITC Due Diligence in your Practice

- Know the law
- Ask the right questions
- Get all the facts
- Document as you go



Know the Law

- Don't rely on software alone
- Explain the law to your clients
- Evaluate the information received
- Use resources available when questions come up



Ask the Right Questions

- Conduct a thorough interview
- Ask open ended questions
- Phrase questions in terms your clients understand
- Ask questions of each client, each child, every year



Ask the Right Questions

Determine if a child is a qualifying child

- Determine residency and household living arrangements
- Ensure your client meets the new age requirement or exception
- Secure enough information to ensure your client meets special requirements of certain relationships



Ask the Right Questions

Determine correct filing status

- Don't expect your clients to understand the tax definitions of head of household or "considered unmarried"
- Take special note when filing status changes from one year to the next
- Use Form 886-H-HOH



Ask the Right Questions

- Ensure income is reported correctly
 - Consider reasonableness of known income
 - Be alert to questionable income reporting forms (Forms W-2 and 1099)
 - Follow up on Schedules C with rounded numbers for income/expenses and/or no expenses
 - Look out for questionable situations where the income maximizes the EITC credit
- Get all the facts



Document as You Go

- Document any additional questions you raised and your client's responses
- Maintain all clients' records in a secure environment



IRS Resources

- EITC Preparer Toolkit
 - Search “toolkit”, select “EITC Toolkit for Tax Return Preparers”
 - EITC Central tab
 - EITC Due Diligence Training Module
 - Hot Topics



Tax Preparer Toolkit

Life's a little easier with



EITC CENTRAL

TAX PREPARER TOOLKIT

PARTNER TOOLKIT

MARKETING EXPRESS

Welcome

EITC Due Diligence
Training Module

Hot Topics

About EITC for Preparers

What's in the Toolkit?

Preparer Due Diligence

Child-Related Tax Benefit
Differences

Alerts for Special Situations

Tools and Tips

Educational Opportunities

Welcome to the Tax Preparer Toolkit

Here is everything you need for EITC information and products to help you as a tax return preparer assist your clients.

This toolkit includes:

- The latest rules and tax law changes
- EITC eligibility requirements
- Tips on how to file accurate claims and meet your due diligence requirements
- The most up to date EITC forms, brochures and support materials available for download
- Compliance information



Review our Hot Topics for items affecting you as a tax return preparer such as:

- **Visits to Preparers Filing Highly Questionable 2008 EITC Returns**
- **Proposed Return Preparers Review**
- **EITC 2009 Tax Forum Presentations**
- **Identity Theft**

EITC Central

EITC CENTRAL

TAX PREPARER TOOLKIT

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Welcome

About EITC

What's Hot

Preview of 2009

Child Related Tax Benefits
Comparison

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Site Map

Welcome to EITC Central: Everything you need, all in one place.

We created this new and improved site for our valued IRS partners and tax preparers. By using the latest tools for marketing, education and tools to help in accurate tax return preparation, you can ensure all EITC eligible workers receive the credit they earned and deserve.

IRS's goals for EITC are to increase participation while reducing error. The resources in this kit help balance the goals, assisting you in reaching those eligible workers who qualify for the credit and preparing accurate returns which reduces claims made in error.

We welcome comments and suggestions to better meet your needs in improving this site.



We thank you for your efforts in serving taxpayers well.

EITC Due Diligence Training Module



login

If you have already registered please login here.

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Password:

[I forgot my login information](#)

register

If you have not registered before please do so below. Your password must contain 4 or more characters.

First Name:

Last Name:

Email:

Professional Status:

Password:

Password (confirm):



Welcome to the EITC Due Diligence Best Practices Training.

In direct response to your request for more guidance and specificity around EITC Due Diligence requirements, the EITC Due Diligence Best Practices Training has been designed to help you, the tax professional, better understand the Earned Income Tax Credit and your responsibilities under the EITC Due Diligence regulations.

This training is part of the EITC online Tax Preparers' Toolkit. If you are a tax professional who participates in the training session and passes the test, you may be eligible to receive CPE credit. If you are a new user, please register to begin the training. Or, if you have already registered, simply login to resume your training.

Summary

- Know the law
- Ask the right questions
- Get all the facts
- Document as you go

